

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 INT-05 L-03 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 GSA-01

PA-01 PRS-01 FTC-01 EA-06 ERDA-05 FEA-01 /077 W

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R 221435Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 481

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY CARACAS

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E.O.11652: N/A

TAGS: EMIN, BR

SUBJECT: SLOW-DOWN ON THREE LARGE AMAZON MINERALS PROJECTS

1. SUMMARY: THREE GIANT MINERALS PROJECTS IN BRAZIL'S AMAZON REGION (FOR IRON ORE, BAUXITE AND ALUMINUM) APPEAR TO BE FACING DELAYS IN GETTING OFF THE GROUND. EACH PROJECT IS CONTROLLED BY THE GOVERNMENT-OWNED COMPANHIA VALE DO RIO DOCE (CVRD), WITH 49 PERCENT FOREIGN EQUITY PARTICIPATION. THEY ARE THE GOB'S FIRST IMPORTANT JOINT MINERALS VENTURES WITH FOREIGN COMPANIES AND ARE BEING CLOSELY WATCHED BY THE MINERALS COMMUNITY. THE PRINCIPAL CAUSES FOR THE PROJECT SLOWDOWNS APPEAR TO BE THE RAPIDLY RISING DEVELOPMENT COSTS (THEIR TOTAL INVESTMENT IS NOW ESTIMATED AT \$6 BILLION) AND CONCERN OVER CVRD'S MANAGEMENT ROLE. IN THE CASE OF THE JOINT VENTURE FOR IRON ORE CARAJAS), CRITICAL FINGERS HAVE BEEN POINTED IN RECENT WEEKS AT U.S. STEEL BY CVRD, THE LOCAL PRESS, AND MEMBERS OF CONGRESS. THEY HAVE MADE A VARIETY OF ACCUSATIONS, RANGING

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FROM U.S. STEEL INTENTIONALLY DELAYING THE PROJECT

SO THAT IT CAN EXPORT AS MUCH IRON ORE AS POSSIBLE  
FROM VENEZUELA TO THE CHARGE THAT U.S. STEEL IS  
RECOMMENDING THE INSTALLATION OF A 930-KM RAILWAY  
SO THAT IT CAN SELL MORE STEEL PRODUCTS TO BRAZIL.  
DESPITE THE CURRENT PUBLICITY AND PROBLEMS, THE THREE  
PROJECTS ARE CONSIDERED SOUNDLY CONCEIVED AND ARE  
EXPECTED TO MOVE AHEAD, ALBEIT PROBABLY NOT AT THE  
PACE DESIRED BY THE GOB. US STEEL HAS AGREED TO A  
MANAGEMENT REORGANIZATION OF THE CARAJAS PROJECT.  
END SUMMARY.

2. THREE OF BRAZIL'S MOST WIDELY PUBLICIZED MINERALS  
PROJECTS ARE CARAJAS (IRON ORE), TROMBETAS (BAUXITE)  
AND ALBRAS (ALUMINA/ALUMINUM), ALL UNDER THE CONTROL  
OF CVRD. (THE PROJECTS ARE DESCRIBED IN BRASILIA  
A-78 AND OTHER AIRGRAMS.) DURING THE PAST SIX MONTHS  
ALL THREE VENTURES APPEAR TO HAVE SLOWED DOWN, IN PART BECAUSE  
OF TODAY'S ECONOMIC REALITIES (ESPECIALLY RISING EQUIPMENT  
COSTS, THE DIFFICULTIES OF RAISING CAPITAL, AND  
UNCERTAIN FUTURE CONSUMER DEMAND FOR THE COMMODITIES)  
AND IN PART BECAUSE OF CONCERN BY THE FOREIGN PARTNERS  
WITH CVRD'S MANAGEMENT ROLE AND MANAGERIAL ABILITIES.

3. UPON TAKING OFFICE, THE GEISEL ADMINISTRATION  
COMPLETELY OVERHAULED THE CVRD LEADERSHIP. THE COMPANY'S  
PRESIDENT AND ALL BUT ONE OF SEVEN DIRECTORS  
ARE NEW TO CVRD AND, OF GREATER IMPORTANCE, NEW TO  
MINING. WHETHER OR NOT THAT NECESSARILY MATTERS,  
NUMEROUS REPRESENTATIVES OF MINING COMPANIES, BANKS,  
EQUIPMENT MANUFACTURERS AND GOB MINERALS-RELATED  
AGENCIES HAVING FIRST-HAND CONTACT WITH CVRD  
FREQUENTLY MENTION IT. THERE DOES SEEM TO BE A MOVE  
AFOOT TO "CUT CVRD DOWN TO SIZE." ONE WAY TO DO IT  
IS THROUGH TAXATION, AND LEGISLATION HAS BEEN INTRODUCED  
REQUIRING CERTAIN GOVERNMENT CORPORATIONS, INCLUDING  
CVRD, TO PAY TAXES. ANOTHER TALKED-OF  
POSSIBILITY IS TO MAKE CPRM (COMPANHIA DE PESQUISA  
DE RECURSOS MINERAIS) THE NON-FERROUS GOVERNMENT  
MINING COMPANY. MOST OF THE CVRD CRITICS REVEAL A  
NOTE OF ENVY IN THE OFT-HEARD CHARGE THAT THE COMPANY  
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HAS GROWN TO POWERFUL (\$170 MILLION PROFITS IN 1974)  
AND GONE TOO FAR AFIELD BEYOND ITS TRADITIONAL MANDATE  
OF MINING AND MARKETING JUST IRON ORE. THERE HAS BEEN A RECENT

TENDENCY, STARTED IN THE PRESS, TO DISCUSS THE PLIGHT OF THE  
THREE PROJECTS TOGETHER, WHICH (1) HAS HELPED PUT  
THE USUALLY LOW-PROFILE CVRD IN THE LIMELIGHT (AND  
NOT ALWAYS A VERY FAVORABLE LIGHT) AND (2) HAS

EVOKED CRITICISM OF CVRD'S FOREIGN PARTNERS FOR  
DELAYING THE PROJECTS BECAUSE OF THEIR COMPETING  
MINERALS INTERESTS IN OTHER COUNTRIES.

4. CARAJAS: THE OPERATING COMPANY FOR THE CARAJAS  
PROJECT, AMAZONIA MINERACAO S.A. (AMZA) -- 51 PERCENT  
CVRD AND 49PERCENT US STEEL -- HAS RECENTLY BEEN REORGANIZED  
AT THE INSISTENCE OF THE BRAZILIAN PARTNER  
THAT ITS MANAGEMENT ROLE SHOULD REFLECT ITS MAJORITY  
EQUITY PARTICIPATION. THIS REORGANIZATION CAUSED A  
DELAY IN THE CARAJAS PROJECT OF SEVERAL MONTHS AND  
HAS LED TO SOME PUBLIC ANDOFFICIAL CRITICISM OF THE  
PROJECT AND OF US STEEL. THE CRITICS' MAIN CHARGES  
HAVE BEEN THAT US STEEL IS DELIBERATELY DELAYING THE  
CARAJAS PROJECT BECAUSE OF COMMITMENTS TO MOVE LARGE  
QUANTITIES OF IRON ORE FROM VENEZUELA, THAT US STEEL  
WAS DELAYING CONSTRUCTION OF THE RAILROAD TO CARRY  
ORE FROM THE MINE TO THE PORT OF SAO LUIZ IN THE  
STATE OF MARANHAO IN ORDER TO OBTAIN GOB FINANCING  
FOR WHAT WOULD BE AN UNPROFITABLE OPERATION, AND THAT  
THE DECISION TO TRANSPORT ORE BY RAIL RATHER THAN  
BY RIVER TO A PORT IN THE STATE OF PARA WAS INSPIRED  
BY US STEEL IN ORDER TO SUPPLY RAILS AND RAILROAD  
EQUIPMENT. THESE CHARGES, PARTICULARLY THE LATTER,  
AND A NUMBER OF TRANSFERS AND RESIGNATIONS AMONG THE  
SMALL US STEEL STAFF LOCATED IN BELEM (STATE  
OF PARA) PROVOKED A SPATE OF RUMORS THERE THAT THE  
ENTIRE PPROJECT HAD GONE SOUR AND THAT US STEEL WAS  
CONSIDERING WITHDRAWING OR CONSIDERABLY REDUCING ITS  
PARTICIPATION.

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OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 GSA-01

PA-01 PRS-01 FTC-01 EA-06 ERDA-05 FEA-01 /077 W

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R 221435Z JUL 75  
FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 482  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO  
AMEMBASSY CARACAS

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5. IN CONVERSATIONS WITH THE AMBASSADOR AND EMBOFFS FOLLOWING THE AIRING OF SOME OF THESE CHARGES RECENTLY, INCLUDING COMPLAINTS FROM HIGH GOB OFFICIALS THAT US STEEL WAS DRAGGING ITS FEET, THE HEAD OF US STEEL OPERATIONS IN BRAZIL SAID THAT SUCH CHARGES WERE UNFOUNDED AND THAT THE COMPANY HAS WORKED OUT A SATISFACTORY REORGANIZATION WITH CVRD THAT REDUCES THE TOTAL EFFECTIVE MANAGEMENT CONTROL THAT THE COMPANY PREVIOUSLY HAD BUT THAT ADEQUATELY PRESERVES ITS PARTICIPATION IN OPERATING DECISIONS. UNDER THE NEW MANAGEMENT SCHEME, CVRD WILL NAME THREE AMZA DIRECTORS, INCLUDING THE PRESIDENT, AND US STEEL TWO, WITH THE CONCURRENCE OF EACH PARTNER FOR THE OTHER'S NOMINEES. A CVRD DIRECTOR WILL HEAD CONSTRUCTION/ENGINEERING AND A US STEEL DIRECTOR WILL HEAD FINANCE. RESPONSIBILITIES OF THE OTHER DIRECTORS WILL DEPEND UPON THE CHANGING REQUIREMENTS OF THE PROJECT AS IT IS IMPLEMENTED. THE REASON GIVEN FOR PERSONNEL CHANGES AT THE CARAJAS SITE AND IN BELEM WAS THE FACT THAT US STEEL HAS AGREED TO CVRD'S LIMITED OFFICIAL USE

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DESIRE FOR GREATER MANAGEMENT CONTROL AND THAT THE REORGANIZATION SHOULD REFLECT THE PROJECT'S TRANSITION FROM THE PROSPECTING TO THE CONSTRUCTION STAGE.

6. THE US STEEL OFFICIAL SAID THAT TOTAL COST FOR THE CARAJAS PROJECT, BASED ON 1974 PRICES, IS ESTIMATED AT \$2,150 MILLION, OF WHICH \$1,750 MILLION WOULD BE FINANCED. PRODUCTION FORECAST IS FOR 10 TO 12 MILLION TONS IN 1979, 22 MILLION TONS IN 1980, AND INCREASING TO 50 MILLION TONS PER YEAR IN 1986. US STEEL HAS INFORMED CVRD THAT IT WOULD COMMIT ITSELF TO BUYING NO MORE THAN 8 MILLION TONS PER YEAR ALTHOUGH, WHEN THE PROJECT ENVISAGED PRODUCTION OF ONLY 10 TO 20 MILLION TONS, US STEEL HAD PLEDGED TO PURCHASE UP TO 50 PERCENT OF THE ORE. APPARENTLY CVRD DID NOT RECEIVE THE 8 MILLION TON CEILING VERY WELL BUT US STEEL FEELS THEIR BRAZILIAN PARTNER CAN LIVE WITH THIS IF FAVORABLE LONG-TERM CONTRACTS ARE MADE

WITH OTHER POTENTIAL AMZA SHAREHOLDERS WITH WHOM NEGOTIATIONS ARE CURRENTLY UNDERWAY FOR THE ACQUISITION OF (PROBABLY) NON-VOTING EQUITY. THESE THIRD COUNTRY PARTICIPANTS -- INCLUDING JAPANESE, BRITISH, AND SPANISH GROUPS -- HAVE INDICATED THE LIKELY PURCHASE OF 32 MILLION TONS PER YEAR. THIS WOULD LEAVE AMZA (AND THE GOB) WITH APPROXIMATELY 10 MILLION TONS PER YEAR TO SELL IN OTHER MARKETS. SOME ADDITIONAL UNRESOLVED ISSUES THAT US STEEL HOPES TO RESOLVE AT A JULY 23 MEETING WITH MINISTER OF MINES AND ENERGY UEKI CONCERN THE INVESTMENT INCENTIVES THAT THE GOB WILL GRANT FOR THE NEXT PHASES OF THE CARAJAS PROJECT -- E.G., OFFICIAL FINANCING, TAX EXEMPTIONS, AND WAIVER OF IMPORT DUTIES ON EQUIPMENT. AT THAT TIME US STEEL WILL PROBABLY INFORM THE GOB AND CVRD OF ITS WILLINGNESS FOR AMZA TO BUILD AND OPERATE THE RAILROAD TO SAO LUIZ.

7. THE ARGUMENT OF RAIL VERSUS WATER CARRIAGE FOR THE CARAJAS ORE IS NOT NEW BUT HAS BEEN REVIVED RECENTLY, PRIMARILY BY AUTHORITIES IN THE STATE OF PARA AND THE NATIONAL DEPARTMENT OF PORTS AND WATERWAYS, WHO LIMITED OFFICIAL USE

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CONTEND THAT BARGING ORE DOWN THE TOCANTINS RIVER TO A PORT SITE IN PARA WOULD BE CHEAPER THAN RAILING IT TO MARANHAO. THE RIVER PROPONENTS HAVE DIRECTED STRONG NATIONALISTIC ATTACKS AT U.S. STEEL ARGUMENTS, INTER ALIA, THAT ITS ENGINEERS PERSUADED CVRD TO ACCEPT THE RAILWAY IN ORDER TO (SOMEHOW) GIVE FOREIGNERS PERMANENT CONTROL OVER THE VITAL LINE AND TO ENABLE IT TO SELL RAILS AND OTHER EQUIPMENT. IN FACT, HOWEVER, THE DECISIONS ON THE PORT AT SAO LUIZ (ITAQUI) AND THE RAILWAY WERE TAKEN JOINTLY AND ARE STILL SUPPORTED BY BOTH CVRD AND US STEEL. AFTER EXTENSIVE STUDIES AMZA CONCLUDED THAT, WHILE RIVER TRANSPORT WAS FEASIBLE, PORT SITES IN PARA WERE UNSUITABLE FOR THE ORE MOVING FACILITY PLANNED AND WOULD HAVE REQUIRED THE CONSTRUCTION OF A DOCKING FACILITY 11 KILOMETERS OFF-SHORE. SAO LUIZ ON THE OTHER HAND WAS THE ONLY POTENTIAL SITE WHICH COULD ACCOMMODATE THE LARGE BULK CARRIERS NEEDED AND THAT WAS NOT SUBJECT TO THE RISKS OF OCEAN/RIVER CURRENTS AND SHIFTING LAND MASSES THAT EXIST ON THE PARA COAST. THERE SEEMS LITTLE LIKELIHOOD THAT THIS DECISION WILL BE ALTERED. AFTER SOME INTERNAL GOB SQUABBLING BETWEEN THE NATIONAL RAILWAY SYSTEM (MINISTRY OF TRANSPORT) AND THE CVRD (MINISTRY OF MINES AND ENERGY), A DECISION WAS TAKEN THAT AMZA SHOULD BUILD AND OPERATE

THE RAIL LINE. THEREFORE, THE FINAL CARAJAS PROJECT  
WILL BE AN INTEGRATED OPERATION WITH THE JOINT COMPANY  
AMZA CONTROLLING THE MINE, THE RAILROAD, AND  
THE LOADING AND PROCESSING FACILITIES.

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OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 GSA-01

PA-01 PRS-01 FTC-01 EA-06 ERDA-05 FEA-01 /077 W

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R 221435Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 483

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY CARACAS

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8. TROMBETAS BAUXITE - THE PROBLEM IS FINANCING.  
THE PROJECT TO EXTRACT AND EXPORT 3.3 MILLION TPY  
OF BAUXITE WAS SCHEDULED TO COST \$117 MILLION AND  
COME ON STREAM IN 1977. NOW THE COST ESTIMATES ARE  
UP TO \$260 MILLION WITH THE EARLIEST PRODUCTION DATE  
SEEN SOMETIME IN 1979. BUT MUCH OF THE FINANCING  
STILL HAS TO BE RAISED AND THERE ARE NUMEROUS  
REPORTS OF DISSATISFACTION BY THE SEVEN FOREIGN  
PARTNERS. THE PARTNERS REPORT CONCERN OVER CVRD  
MANAGEMENT OF THE PROJECT, THE INCREASED CAPITAL  
CONTRIBUTIONS WHICH ARE BEING SOLICITED FROM EACH  
PARTNER, THE INCREASED PRICES THEY WILL HAVE TO PAY  
FOR THE BAUXITE, AND CVRD'S ANXIETY TO CONSIDER  
EXPANDING TO EIGHT MILLION TPY. MOST PRESS AND  
POLITICAL COMMENTARY ACCUSES ALCAN (THE PRINCIPAL  
FOREIGN PARTNER WITH A 19 PER CENT HOLDING; REYNOLDS

AND THE OTHERS HAVE 5 PERCENT) OF DELAYING THE PROJECT.

9. ALBRAS ALUMINUM - AS WITH CARAJAS, THE PROBLEMS  
HERE ARE INFRASTRUCTURE AND INCREASED PROJECT COSTS.  
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THE JAPANESE CONSORTIUM (49 PERCENT) REPORTEDLY IS NOW  
UNWILLING TO PARTICIPATE IN THE TUCURUI HYDRO-  
ELECTRIC PLANT AND IS SAID TO WANT TO SCALE DOWN THE  
EVENTUAL SMELTER CAPACITY, WHICH WAS ENVISIONED AT  
640,000 TPY CAPACITY BY 1985. IN THE PAST YEAR THE  
PROJECTED TOTAL INVESTMENT HAS RISEN FROM \$2.5 TO  
\$3.6 BILLION.

10. COMMENT: BRAZIL, WHICH HAS HAD NOTABLE SUCCESSES  
IN IRON ORE AND MANGANESE AND IN SOME MASSIVE  
OTHER COMPLEXES OF HIGH NATIONAL PRIORITY (VOLTA  
REDONDA, ITAIPU, THE RECENT NUCLEAR AGREEMENT),  
APPEARS MOMENTARILY UNCERTAIN AS TO HOW TO GET THE  
THREE MINERALS PROJECTS BACK ON THE TRACKS. NOW  
THAT HE HAS HELPED SCORE MAJOR SUCCESSES IN PETROLEUM  
(THE CAMPOS DISCOVERY) AND NUCLEAR ENERGY, MINISTER  
OF MINES AND ENERGY SHIGEAKI UEKI CAN BE EXPECTED  
TO CONCENTRATE MORE ON MINING, AN AREA  
HE HAS LARGELY NEGLECTED AND LEFT TO RUN MORE OR LESS  
ON ITS OWN TO DATE. UEKI PREVIOUSLY HAS WARNED  
FOREIGN AND BRAZILIAN MINING COMPANIES AGAINST DELAYING  
VITAL PROJECTS. WHILE THE GOB MAY WISH--OR  
EVEN INSIST--THAT THE COUNTRY'S MINERALS RESOURCES  
BE DEVELOPED SOONER RATHER THAN LATER, BRAZIL, LIKE  
MOST OTHER COUNTRIES, STILL REQUIRES THE MULTI-  
NATIONAL MINING AND METALS COMPANIES FOR THE INVESTMENT  
CAPITAL, TECHNOLOGY AND MARKETS NEEDED FOR LARGE-  
SCALE MINERALS DEVELOPMENT. AS LONG AS THAT HOLDS  
TRUE, THE WORLD-WIDE INTERESTS OF THOSE COMPANIES,  
ALONG WITH WORLD-WIDE MARKET FORCES, WILL CONTINUE  
TO AFFECT THEIR DECISIONS ON BRAZIL.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** IRON, BAUXITE, ALUMINUM, FOREIGN INVESTMENT, MINERALS, MINING INDUSTRY, PROGRAMS (PROJECTS), JOINT VENTURES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 JUL 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BRASIL06025  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750252-1211  
**From:** BRASILIA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750731/aaaabbjw.tel  
**Line Count:** 373  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 7  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 04 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <04 SEP 2003 by CunninFX>; APPROVED <01 DEC 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SLOW-DOWN ON THREE LARGE AMAZON MINERALS PROJECTS  
**TAGS:** EMIN, BR, US, US STEEL, COMPANHIA VALE DO REO DOCE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006